

PART II

District of Columbia Economic Basis for Updated Child Support Guideline



Part II, Chapter 1

Introduction

Part II of this report serves two purposes. First, it provides the background analysis and detailed description of how the core formula used to determine support was developed. The Commission believes that it is important to carefully document how the recommended formula was derived. There are several steps involved in moving from estimates of child-rearing costs, which are expressed as a percentage of total household expenditures, to the final Guideline formula based on gross income of the parents. Some of the more obvious steps include adjustments to incorporate current federal and District taxes, updating to current price levels, and incorporating a low-income adjustment.

Secondly, Part II provides documentation that the federal guidelines review requirements [45 C.F.R. §302.56] are met. Specifically, the Commission has assessed the most recent economic data on child-rearing costs and reviewed case-level data to determine the application of and deviations from the Guideline. The Commission has used this information to develop its recommendations.

BASIS OF EXISTING GUIDELINE

The core of the Guideline Formula is five Income Levels that show the percentage of the noncustodial parent's gross income to be applied to child support. The percentages vary with the number of children. The percentage may be reduced if the custodial parent's income is above a disregarded amount that varies with the number of children and child care costs.

The Guideline was originally adopted by the Board of The District of Columbia Superior Court in 1987. A slightly different version of the court Guideline became legislated in 1990, and is still in effect today. According to the 1987 documentation, "Application of the guideline should result in the noncustodial parent being ordered to pay approximately what he/she would have spent on the child(ren) if the family were intact, plus, if affordable, some of the increased costs associated with the maintenance of two separate households." Some of the additional principles underlying the existing Guideline are: that both parents have a legal responsibility to provide financial support to their child; the consideration of the subsistence needs of each parent; and, application of the Guideline should be sexually non-discriminatory.

Although it is not clear what study of child-rearing costs was used to arrive at the current Income Levels— that is, the percentages of noncustodial parent's income at particular Income Levels to be applied to child support— the 1987 documentation indicates that the economic evidence considered by the original Guideline developers showed that the proportion of income parents devote to their children was relatively constant across income

levels up to about \$75,000 per year. This is why the current Guideline is no longer presumptive above noncustodial parent incomes of \$75,000 per year. Further, the constant percentage allowed the original Guideline developers to assume that the custodial parent devoted the same proportion of his or her income to child support as the noncustodial parent did without having to consider the combined income of the parents. As will be shown later, this assumption is difficult to maintain given that all of the new measurements of child-rearing costs indicate that the percentage of combined income devoted to child-rearing costs declines as the parents' combined income increases. (The dollar amount, however, does increase with income.)

Another key feature of the current Guideline is that it includes an adjustment for low-income noncustodial parents. It provides a self support reserve of \$7,500 per year, which approximated the gross income equivalent of the federal poverty guidelines for one person in 1990, when the Guideline was last reviewed. The purpose of the self support reserve is to ensure that the noncustodial parent is left with enough income after payment of child support to live at least a subsistence standard of living. The first Income Level applies a minimum order amount to noncustodial parents with incomes below the self support reserve; the next three Income Levels phase out the self support reserve; and, the highest Income Level is presumed to represent actual child-rearing costs.

NEW ECONOMIC DATA ON CHILD-REARING EXPENDITURES

There are two credible, recent studies on child-rearing costs. They are also the most frequently reviewed studies by state child support guidelines review commissions. Both studies were reviewed by the Commission. These new studies are summarized below, but more detail can be found in Chapter 2.

Measurements developed by Dr. Betson, University of Notre Dame¹

Dr. David Betson, Professor of Economics, University of Notre Dame developed measurements of child-rearing expenditures from national data, the 1996-99 Consumer Expenditures Survey conducted by the U.S. Bureau of Labor of Statistics. They have been updated to 2003 price levels for the proposed Guideline formula in this report. Betson's most recent study updates his measurements of child-rearing costs that he prepared in 1990 for the U.S. Department of Health and Human Services for the explicit purpose of assisting states with the development and revision of child support guidelines.² Betson's earlier measurements were based on older data, the 1980-86 Consumer Expenditures Survey. In

¹Judicial Council of California, "Chapter 5: Parental Expenditures on Children," *Review of Statewide Uniform Child Support Guideline*, San Francisco, California, (2001). Available at: http://www.courtinfo.ca.gov/programs/cfcc/_programs/_description/_1058study2001.htm

²David M. Betson, *Alternative Estimates of the Cost of Children from the 1980-86 Consumer Expenditure Survey*, Report to U.S. Department of Health and Human Services (Office of the Assistant Secretary for Planning and Evaluation), University of Wisconsin Institute for Research on Poverty (September 1990).

developing his new measurements, he used the same procedures, methodologies, and computer programming code. The only difference is the survey years.

For both studies, Betson developed measurements of child-rearing costs using the “Engel” and the “Rothbarth” methodologies. An economic methodology is needed to separate the child’s share from the parents’ share of common household expenditures (e.g., housing). Most economists believe that measurements based on the Engel methodology are likely to overstate actual child-rearing costs and that measurements based on the Rothbarth methodology are likely to understate actual child-rearing costs.³ Betson, however, believes the Rothbarth measurements have the most plausible results and recommends their use over the results from the other four methodologies that he tested.

Currently in use in 21 states, the Betson-Rothbarth measurements of child-rearing costs are the most prevalent in state guidelines. Since his early Engel measurements of child-rearing costs approached per capita amounts, which imply that children cost the same as adults, he did not consider them credible. Further, he takes issue with the theoretical underpinnings of the Engel methodology in his later study. No state bases its guidelines on the Betson-Engel measurements of child-rearing costs. However, nine states still base their guidelines on earlier Engel measurements calculated by Dr. Thomas Espenshade, using 1972-73 Consumer Expenditure Survey data.⁴

Betson’s measurements of child-rearing costs are expressed as a percentage of total household expenditures. They are converted to net income by applying the ratio of household expenditures to net income ratios observed in the same data set used to develop the measurements. In turn, they are converted to gross income using May 2003 federal (post-federal 2003 tax reform) and District of Columbia personal income tax rates and FICA.

U.S. Department of Agriculture (USDA) Measurements of Child-Rearing Costs⁵

The USDA publishes an annual study on child-rearing costs. Its most recent report is based on the 1990-92 Consumer Expenditure Survey, but updated to 2002 price levels. The study considers three ranges of gross income: low, middle, and high. The USDA methodology is also believed to overstate actual child-rearing costs.⁶ No state bases its guidelines on the USDA measurements of child-rearing costs.

³Lewin/ICF, *Estimates of Expenditures on Children and Child Support Guidelines*, Report to U.S. Department of Health and Human Services (Office of the Assistant Secretary for Planning and Evaluation), Alexandria, VA (October 1990).

⁴ Thomas J. Espenshade, *Investing in Children: New Estimates of Parental Expenditures* (Washington, D.C.: Urban Institute Press, 1984).

⁵Mark Lino, *Expenditures on Children by Families: 2002 Annual Report*, U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2002 (2003). Available at: <http://www.usda.gov/cnpp/Crc/crc2002.pdf>

⁶Lewin (1990).

Comparison of New Measurements to Current Guideline

There are several differences between the trends evidenced in the new measurements of child-rearing costs and the current Guideline. None of these more recent measurements suggest that child-rearing costs are a flat percentage of gross income or household expenditures, which is the presumption of the current Guideline. All of the new measurements of child-rearing costs indicate that the percentage of gross income or household expenditures devoted to child-rearing expenditures decreases as income increases. In addition, when the measurements of child-rearing costs based on household expenditures are converted to gross income amounts there are even more precipitous decreases due to progressive federal tax rates.

Another large difference is the new measurements extend to annual incomes of about \$200,000 to \$240,000 per year, which is much higher than the \$75,000 annual income threshold to which the current Guideline is applied presumptively.

Building a New Guideline Formula

Based on the recommendations of the Commission, a new District of Columbia Guideline formula has been developed based on the Betson-Rothbarth estimates. Dr. Betson's research provides estimates of the proportion of household *consumption* expenditures ascribed to children. Expenditures made on behalf of children are commingled with spending on behalf of adults for the largest expenditure categories (i.e., food, housing, and transportation). This commingling of household expenditures is the most important reason that equitable child support awards are so difficult to set on a case-by-case basis. Since the child's share of household consumption cannot be directly observed, it must be estimated based on the best available economic evidence on child-rearing expenditures. This evidence provides estimates of expenditures on children as proportions of parental income levels across a broad spectrum of family incomes. The following additional steps were taken to arrive at the Guideline formula.

- ❖ The estimates of child-rearing costs were converted to 2003 price levels.
- ❖ Then, estimates of the proportion of household *net* income spent on children across a broad income spectrum were developed.
- ❖ Average expenditures on child care, estimated health insurance, and estimated children's extraordinary medical expenses were deducted from these proportions. Based on recommendations of the Commission, these child-rearing costs will be added to the basic child support calculation as actually incurred.
- ❖ Base support amounts were converted from a net-income basis to a gross-income basis using 2003 withholding tables for an intact family.

- ❖ A low-income adjustment was developed using the most recent federal poverty guidelines.

Findings from the Case File Review

Over 600 case jackets were reviewed to determine the application of and deviation from the Guideline. The percent of case jackets reviewed with deviations is 10 percent, which is low relative to other state studies. The most common reason for deviation is consent between the parties.

The case file review also was used to profile characteristics of cases (e.g., number of children, average income of the parents). These findings are provided in Chapter 4.

REPORT ORGANIZATION

Chapter 2 discusses the Betson-Rothbarth estimates and assesses other estimates of child-rearing expenditures.

In Chapter 3, the steps involved in developing the proposed Guideline formula based on relevant economic evidence are discussed, as well as the specific assumptions made in the course of that development. Further detail is provided in Appendix I.

Chapter 4 provides the findings from the case file review.

Chapter 5 provides conclusions.

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